

Legislative Fiscal Report

2009 Biennium



Volume 3 – Agency Budgets

Presented to the Sixtieth Legislature

Submitted by the
Legislative Fiscal Division

Legislative Finance Committee

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AGENCY SUBCOMMITTEE GROUPINGS

The following sections (A through F) provide a detailed explanation and analysis of the executive budget for each agency and agency program that contains appropriations in HB 2. The agencies are grouped by functional categories that mirror agency groups by appropriations subcommittee. The groups are summarized below. Programs funded with proprietary funds are not funded in HB 2, but an explanation and analysis of these programs are included in each agency narrative for the purpose of legislative rate-setting.

GENERAL GOVERNMENT AND TRANSPORTATION (Section A)

Legislative Branch
Consumer Counsel
Judiciary
Governor's Office
Secretary of State
Commissioner of Political Practices
State Auditor
Transportation
Revenue
Administration
Montana Consensus Council
Office of the Public Defender

HEALTH AND HUMAN SERVICES (Section B)

Public Health and Human Services

NATURAL RESOURCES AND COMMERCE (Section C)

Fish, Wildlife, and Parks
Environmental Quality
Livestock
Natural Resources and Conservation
Agriculture
Commerce

CORRECTIONS AND PUBLIC SAFETY (Section D)

Crime Control Division
Justice

CORRECTIONS AND PUBLIC SAFETY (continued)

Public Service Regulation
Corrections
Labor and Industry
Military Affairs

EDUCATION (Section E)

Office of Public Instruction
Board of Public Education
School for the Deaf and Blind
Commissioner of Higher Education
Community Colleges
University Units and Colleges of Technology
Agricultural Experiment Station
Extension Service
Forestry and Conservation Experiment Station
Bureau of Mines & Geology
Fire Services Training School
Montana Arts Council
State Library Commission
Montana Historical Society

LONG-RANGE PLANNING (Section F)

Long-Range Building Program
State Building Energy Conservation
Long-Range Information Technology Program
Treasure State Endowment Program
Treasure State Endowment Regional Water
System
Renewable Resource Grant & Loan Program
Reclamation & Development Grant Program
Cultural and Aesthetic Grant Program

APPROPRIATIONS BY AGENCY AND PROGRAM (ROAD MAP)

This summary of the layout and composition of the “Appropriations by Agency and Program” section is designed to provide the reader with a “road map” for reading and utilizing the agency appropriations report that follows.

The report on agency and program appropriations is designed to provide a resource for legislators and members of the public to understand actions taken on agency budgets by the legislature and their impact on agency operations. It does this by detailing the components of the budget, as well as providing a summary of legislative action and a discussion of other legislation impacting the agency. The agencies are grouped by categories that mirror the groupings used in the appropriations process, and are summarized below.

BUDGET TIERS

The appropriations for all agency budgets were established and the appropriations report is written using the precepts contained in statute that require that the budget be presented in three tiers:

1. Base budget, which is defined as “that level of funding authorized by the previous legislature”.
2. Present law budget, defined as “that level of funding needed under present law to maintain operations and services at the level authorized by the previous legislature”.
3. New proposals, which are “requests to provide new non-mandated services, to change program services, to eliminate existing services, or to change sources of funding...”.

(For a further explanation of these tiers and how they are derived, see page 1 of the “General Reference” section in Volume 1, or the publication entitled “Understanding State Finances and the Budgeting Process”, available through the Legislative Fiscal Division and on the Internet at http://leg.mt.gov/content/publications/fiscal/leg_reference/Understanding_State_Finances.pdf).

The fiscal report is presented in such a way as to show legislative action on each present law adjustment and new proposal made to the base budget to derive the 2009 biennium agency budget.

COMPONENTS OF THE FISCAL REPORT

For all multiple program agencies, the narrative is divided into two parts:

1. The agency narrative.
2. The program narrative.

Agency Narrative

The agency narrative provides an overview of appropriations for the agency. Since the legislature appropriates at the program level, only discussion pertinent to the agency as a whole is included in this section. All other discussion occurs within the relevant program narratives.

Each agency narrative has the following components.

1. The **Main Table** shows the appropriation by year, including separate columns showing present law adjustments and new proposals. The reader can use this table to not only get a general idea of the size and funding of the agency, but also view any changes made.
2. **Agency Description** is a brief description of the agency.
3. **Agency Highlights** is a table showing the principal factors influencing the budget and any related discussion. It is designed to aid the reader in gaining an understanding of the overall agency budget or significant budget areas.
4. **Summary of Legislative Action** provides additional information or overarching discussion.
5. **Agency Discussion** is used to discuss overarching issues or action of the legislature.
6. **Funding** is a table that shows the total biennium funding, by program and fund type. A further discussion of the individual fund types is included in the program narrative.
7. **Other Legislation** lists and discusses legislation having a fiscal impact on the agency.
8. **Executive Budget Comparison** is a table and related discussion that compares the proposed executive budget (as published by the Schweitzer administration on January 7) and final legislative action, and highlights the major differences.
9. **Reorganizations** details any major reorganization that took place in the 2007 biennium or is reflected in the 2009 biennium.
10. **Language** includes any agency-wide language adopted by the legislature.

Note: The main and executive budget comparison tables, the agency description and summary of legislative action, and the highlights and funding tables are included in each agency narrative. However, the other components are included only if circumstances warrant.

Program Narrative

Narratives detailing each agency program follow the agency narrative. The program narrative contains the following components.

1. The **Main Table** contains the same information as the agency main table for each program of the department, including the adjusted fiscal 2006 base used to derive the budget, the total present law adjustments, new proposals, and the total budget, by fiscal year.
2. **Program Description** is a short description of the program and its functions.
3. **Program Highlights** is a table showing the principal factors influencing the budget and any related discussion.
4. **Program Narrative** details any points of overall program discussion by the LFD analyst.
5. **Funding** details program funding, including a brief description of the various types of funding used to support the program.
6. **Program Reorganization** details any program reorganizations that took place in the 2007 biennium or that were adopted by the legislature for the 2009 biennium.
7. The **Present Law Adjustments Table** delineates the major present law adjustments adopted by the legislature, by fiscal year and funding source. The table is divided into two sections:
 - Statewide present law adjustments, which include most personal services adjustments, the vacancy savings applied, and adjustments due to fixed costs and inflation
 - Other present law adjustments adopted by the legislature
8. **Executive Present Law Adjustments** discusses each adjustment in more detail.
9. The **New Proposals Table** shows each new proposal adopted by the legislature, by fiscal year and funding source.
10. **New Proposals** discusses each new proposal in more detail.

11. **Other Legislation** lists any legislation passed by the legislature of particular pertinence to the program.
12. **Language** recreates any program specific language adopted by the legislature.

The legislature does not appropriate enterprise funds (which fund operations that provide goods or services to the public on a user charge basis) or internal services funds (which fund operations that provide goods and services to other entities of state government on a cost-reimbursement basis). However, the legislature approves all internal service rates. If the program includes a function supported by either an enterprise fund or an internal service fund, a separate section within the relevant program provides a discussion of the function, a description and explanation of the rate requested, and a discussion of any significant present law adjustments or new proposals impacting the requested rate.

STATEWIDE PRESENT LAW ADJUSTMENTS

“Statewide Present Law Adjustments” are those adjustments applied to each agency based upon either: 1) factors beyond the individual agency control; or 2) other underlying factors. Because of the global application of these factors and the need for consistency among agencies, these adjustments are included in the “statewide” section of the present law table to alert subcommittees and other decision makers that, if adjustments are made to these costs, adjustments should be made to the underlying factors upon which the adjustments are based. There are four main categories of adjustments: 1) personal services; 2) vacancy savings; 3) inflation/deflation; and 4) fixed costs.

Personal Services

Taking a “snapshot” of state employee positions and the factors determining compensation rates at a particular point in time derives budgeted personal services costs. A number of underlying factors will make the 2007 biennium personal services costs different from actual fiscal 2006 costs. The most important are:

- Incorporation of the 2007 biennium pay plan adopted by the 2005 Legislature (the 2009 biennium pay plan is added in a new proposal)
- Other salary adjustments that took place and are not fully incorporated into the base FY 2006 expenditure
- Full funding of all positions
- Elimination of all termination pay that may have been incurred in FY 2006
- Incorporation of any upgrades or downgrades that occurred in FY 2006

In addition, some present law increases or decreases in FTE made by the previous legislature may be included in this portion of the table.

Vacancy Savings

The legislature adopted a 4 percent vacancy savings rate on all salaries and benefits, including insurance, for most positions. Exempted positions include university system faculty, and those in agencies with fewer than 20 full-time equivalent positions, the Public Service Commission, the Judiciary, and the Legislative Branch. In addition, game wardens in the Department of Fish, Wildlife, and Parks, 24/7 positions in the Department of Corrections, and highway patrol officers were also exempted.

Inflation/Deflation

The legislature inflated or deflated certain operating expenses. A complete listing of expenditure categories inflated or deflated has been included in the “General Reference” section of Volume 1.

Fixed Costs

Fixed costs are costs charged to agencies to fund the operations of certain centralized service functions of state government (such as data network fees, messenger services, and legislative audit). Costs charged to the individual agency budgets are based upon the cost in the service agency and the method used to allocate those costs. These fixed costs are automatically added to each agency budget, as appropriate. Any changes to these allocations are made through a change to the service agency budget, or to the allocation method used by the service agency. A complete listing of all fixed costs is included in the "Reference" section of Volume 1.

AGENCY BUDGET HIGHLIGHTS

The following summarizes the main budget highlights of the 2009 biennium budget. Please note that the following discussion pertains to HB 2 and HB 13 (pay plan bill) expenditures only.

As shown, the legislature adopted a general fund budget of \$3.3 billion, a \$651.1 million increase (24.9 percent) over the 2007 biennium, and a total funds budget of \$6.9 billion, \$1.1 billion increase (15.8 percent).

Legislative Budget by Program Area 2007 to 2009 Biennia				
--- General Fund ---				
Area	2009 Biennium	Increase Over 2007	Percent Increase	Percent of Total
K-12 Education	\$1,324,681,609	\$180,473,428	15.8%	27.7%
Higher Education	365,637,359	59,952,956	19.6%	9.2%
Corrections	346,234,174	105,613,152	43.9%	16.2%
Public Health	787,195,202	168,510,378	27.2%	25.9%
All Other	445,109,148	136,538,898	44.2%	21.0%
Total	\$3,268,857,492	\$651,088,812	24.9%	---
--- Total Funds ---				
Area	2009 Biennium	Increase Over 2007	Percent Increase	Percent of Total
K-12 Education	\$1,637,121,549	\$192,457,626	13.3%	17.7%
Higher Education	528,418,158	101,841,033	23.9%	9.4%
Corrections	355,222,973	107,686,925	43.5%	9.9%
Public Health	3,112,341,348	452,585,169	17.0%	41.7%
All Other	2,318,996,023	231,633,638	11.1%	21.3%
Total	\$6,865,895,660	\$1,086,204,391	15.8%	---

PRIMARY BUDGET FACTORS

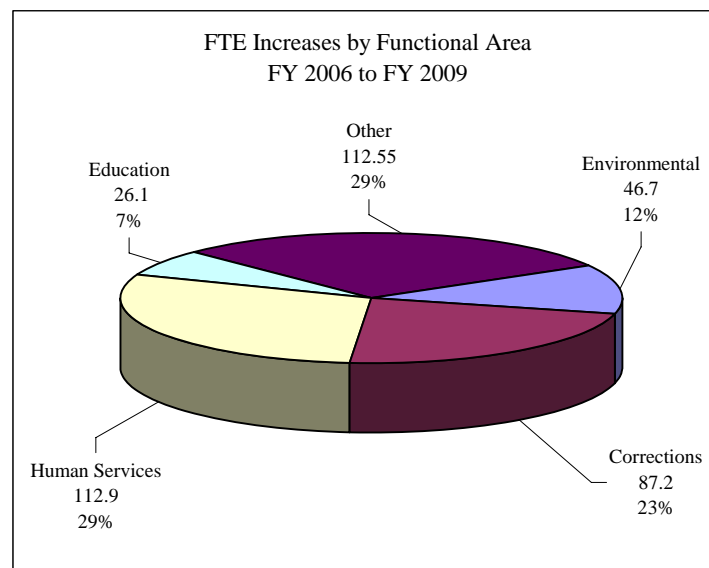
The following summarizes the primary factors causing the change in funding:

- Major causes of the \$651.1 million increase in general fund include the following. However, please note that general fund increases are significant not only in size, but in breadth – the smallest percentage increase is 6.4 percent in the Judiciary, with most agencies receiving an increase well in excess of 20 percent:
 - Human services caseload and service changes, and an increase in the percentage of Medicaid costs the state must pay
 - An increase in the percentage of general fund provided for operating costs in the Montana University System, as well as increased student financial assistance, community and Tribal college assistance, and equipment in the Montana University System
 - Expansions in the number of beds and payments to providers, as well as additional probation and parole officers, to address correctional population growth
 - Annualization of 2005 special session adjustments in K-12 education, as well as implementation of full-time kindergarten, property tax relief, quality educator payments, and school facilities
 - An expansion in the Department of Revenue for various increased tax compliance measures

- Annualization of costs for the new Office of the Public Defender, including caseload increases
- Statewide present law adjustments
- Total funds would increase by \$1.1 billion, or 15.8 percent. Increases for human services are over 41 percent of this increase, due primarily to
 - Increases in Medicaid caseload and services
 - Continued use of various provider assessments (i.e. hospital tax) to increase federal funds
 - Additional food stamp costs and TANF activities
 - Full funding of all anticipated federal transportation funds

FTE

An additional 385.58 FTE were added in FY 2009 over the FY 2006 level appropriated for by the 2005 Legislature. The following shows the allocation of the increase.



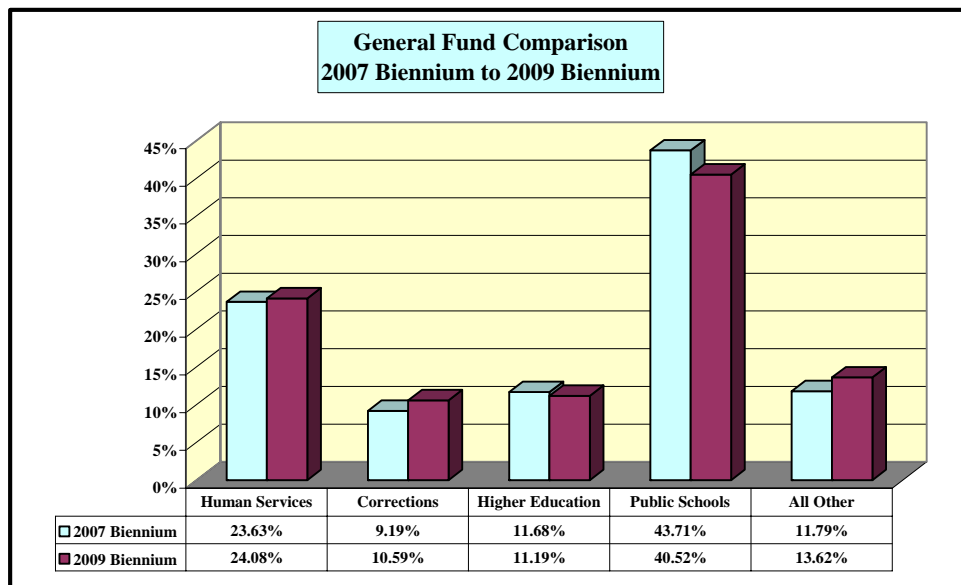
The increase in FTE is due primarily to:

- Largest net increase in FTE
 - Department of Public Health and Human Services – The increase is due primarily to two factors: 1) the maintenance of staff added during the interim due to population issues at Montana State Hospital; and 2) provision of additional field case workers (social workers)
 - Department of Revenue – The legislature added FTE for enhanced tax compliance, liquor system reform, workload, property reappraisal, and collection of out-of-state debt. It is anticipated that the department will also hire a number of modified FTE for other initiatives.
 - Department of Corrections – The legislature added 36 additional probation and parole officers in FY 2009, IT staff and school to work functions at the juvenile facilities, and staff to take over inmate transportation from a contracted firm
 - Without the impact of the movement of county attorney positions to a statutory appropriation, the Department of Justice would increase by 25.50 FTE for additional legal staff, investigators in the Gambling Control Division, highway patrol dispatchers, and miscellaneous other positions, including scientists at the forensics laboratory.
- Largest percentage increase in FTE

- Department of Commerce – The legislature expanded several economic development programs begun or maintained by the 2005 Legislature
- Office of Public Instruction – FTE were added for curriculum specialists and continuance of data management, and due to increased federal grants

COMPARISON OF PROGRAM AREAS

The following figure shows the allocation of general fund by program area for the 2009 biennium compared to the 2007 biennium.



SOURCE OF FUNDING

The following figure illustrates that, continuing a reversal of a trend for a number of years that was started in the 2007 biennium, general fund is a slightly higher share of total funding due to an increase of almost 25 percent compared to an increase in federal funds of 9.3 percent.

